

# 2010–11 Budget Update: Governor's January Proposal

January 12, 2010



# California Economic Outlook

**Despite continued signs of national economic recovery, California's recovery continues to lag.**

- The State continues to suffer from high unemployment rates – 12.3% compared to 10% for the nation;
- Real estate, construction, and manufacturing sectors continue to be flat;
- Income and sales tax continue to miss projections set by the State.

*Bottom line: Economic stabilization is predicted to begin this summer with a fully recovery lasting up to five more years though 2015.*

# California Budget Outlook

**The State currently has a \$19.9 billion deficit in its General Fund over two years. The Governor's proposal:**

- Affects all segments of California government;
- Uses combination of (a) new federal funds, (b) budget reductions, and (c) borrowing and special fund transfers to balance budget;
- Does not suggest instituting mid-year budget reductions to solve the problem;
- Has called a special session of the Legislature to address the problem by February 22<sup>nd</sup>

# Budget Impact to Education: Fiscal Implications

**The funding outlook is better than the past two years, but reductions are still very likely.**

- Federal maintenance of effort floor has helped to support education in the Governor's budget proposal.
  - As a result, education takes proportionally less of a reduction versus other public agencies.
- Cost of living adjustment (COLA) is -0.38%.
- Proposed \$1.5 billion reduction to revenue limit instituted for 2009-10 now becomes permanent.
  - Governor states that savings can be achieved through "administrative efficiencies".

# Budget Impact to Education: Fiscal Implications

## **Other aspects of the budget proposal about education:**

- Flexibility provisions remain intact but are also reduced by statutory COLA of -0.38%.
  - K-3 class size reduction (CSR) relaxed penalties remain in effect through 2011-12 fiscal year;
  - School calendars may continue to be reduced by five days through 2012-13;
  - Tier III categorical programs can continue to be used for any educational purpose through 2012-13.
- QEIA program is fully funded.
- Prop. 49, after school education and safety continues to be fully funded.

Source: School Services of California. Governor's Proposal for 2010-11 State Budget and K-12 Education. January 12, 2010.

# Impact to Stockton Unified

## Governor's January Budget Proposal

Below is a summary of the impact to the District's unrestricted General Fund and subsequent budget challenge for 2010-11.

	<b>Item</b>	<b>Amount</b>
	<b>Current SUSD Budget Deficit for 2010-11</b>	<b>\$20,100,000</b>
+	Cost of living adjustment (COLA) of -0.38% (Reduction of \$24 per ADA)	\$864,000
+	Proposed \$1.5 billion permanent reduction to revenue limit (Reduction of \$201 per ADA)	\$6,907,000
+	Tier III categorical programs receive a -0.38% reduction for each program	\$590,000
	<b>REVISED, TOTAL 2010-11 BUDGET DEFICIT</b>	<b>\$28,461,000</b>

Source: School Services of California. Governor's Proposal for 2010-11 State Budget and K-12 Education. January 12, 2010.

# Budget Impact to Education: Personnel and Administrative Reforms

## Governor's proposal offers additional flexibility for:

- Substitute teacher costs – Elimination of 39-month and 24-month rehire rights, guarantees to substitute service
- Layoff statutes – Elimination of March 15<sup>th</sup> date for issuing preliminary certificated layoff notices, districts would have 60 days after State Budget adoption to issue notices
- Seniority rules – Offers districts flexibility to lay off, assign, reassign, transfer, and rehire teachers based on skill and subject matter needs
- Teacher dismissal – Governor has proposed increased flexibility to local Governing Boards

# Cash Flow:

## Basics and State Deferrals

**Cash flow is a significant aspect of managing a school district's fiscal solvency.**

- Cash flow is calculated using a calculation of cash received minus cash distributed on a monthly basis.
- Over the past several years the State has continued to defer cash apportionments to school districts in order to reap the interest on the principal.
- In total, the State has deferred 25% of Stockton USD's apportionment into the following fiscal year.
- Often, school districts will use several financial instruments to help manage cash shortages.



# Cash Flow:

## Options to Address Challenge

**The Governor's proposal – if passed – would make permanent the 25% apportionment deferral for school districts. Several options are available to mitigate this:**

- Inter-fund borrowing: Education Code 42603 provides authorization for districts to temporarily borrow from any district fund. Borrowing occurs by transferring cash from one fund to another.
- Tax and revenue anticipation note (TRAN): Are short-term, interest-bearing notes issued by districts in anticipation of taxes and revenues. These instruments are commonly used to fill short-term cash flow needs for public organizations.

# Thank You.

## QUESTIONS?